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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 10/28/08

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- (1) Poll on Aso cabinet, political parties

NIKKEI (Page 2) (Full)
October 27, 2008

Questions & Answers

(Figures shown in percentage. Parentheses denote findings for the Aso cabinet from the last survey conducted in September.)

Q: Do you support the new Aso cabinet?

Yes 48 (53)

No 43 (40)

Can't say (C/S) + don't know (D/K) 9 (7)

Q: Which political party do you support or like now?

Liberal Democratic Party (LDP) 41 (41)

Democratic Party of Japan (DPJ or Minshuto) 31 (31)

New Komeito (NK) 3 (4)

Japanese Communist Party (JCP) 5 (4)

Social Democratic Party (SDP or Shaminto) 2 (2)

People's New Party (PNP or Kokumin Shinto) 0 (1)

Reform Club (RC or Kaikaku Kurabu) 0 (--)

New Party Nippon (NPN or Shinto Nippon) 0 (0)

Other political parties 0 (0)

None 11 (13)

C/S+D/K 6 (4)

(Note) The total percentage does not become 100 PERCENT in some cases due to rounding

Polling methodology: The survey was taken in September by Nikkei Research Inc. by telephone on a random digit dialing (RDD) basis. For the survey, samples were chosen from among men and women aged 20

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and over across the nation. A total of 1,530 households with one or more eligible voters were sampled, and answers were obtained from 947 persons (61.9 PERCENT).

(2) No end to stock plunges: Market unfazed by government measures

ASAHI (Page 2) (Full)
October 28, 2008

Stock prices keep falling even after the Tokyo Stock Exchange (TSE) hit a post-bubble low. The government is hastily compiling market stabilization measures. However, the key Nikkei index slipped to a 26-year low, overcome by various negative factors, such as the financial crisis, the specter of a possible global depression and the strong yen. There seems to be no end to stock plunges, following the collapse of Lehman Brothers, a leading securities company.

After briefing to State Minister for Fiscal and Financial Policy Nakagawa on an emergency market stabilization package, a certain senior Financial Services Agency official on the morning of October 27 said with a shattered look, "We have included whatever measures possible, based on the determination that we will do whatever possible under the present circumstance."

In an effort to abate the stock plunges and the strong yen, Prime Minister Aso on the morning of the same day instructed the government and the ruling parties to compile a package using every possible measure.

However, the market hardly responded. The TSE plunged to a record low since the bursting of the bubble economy. One market player questioned the government's motive, saying, "If it had to compile a package of market stabilization measures, why didn't it release it before the market opened on the 27th?"

Nakagawa, a close aide to the prime minister, executed the prime minister's order. In the wake of the TSE plunge, followed by the New York Stock Exchange closing lower, it was imperative for the government to come up with a clear-cut stance in the new week.

Nakagawa, who wanted to put on a show of "a strong Aso," was motivated by the desire to receive a favorable response from the market, by releasing the prime minister's bold instruction at noon of the 27th. One government source explained, "He was also concerned

that if he had released the package before the market opened and if stock prices had hit the post-bubble lows, it would have hurt market confidence in the prime minister."

In addition, bargaining over the timing of a Lower House dissolution is heating up in the ruling camp. The prime minister from the beginning has taken a stance of prudently determining the timing of dissolving the Lower House, while determining the Diet and economic situations. However, Nakagawa strongly believes that a Diet dissolution should be put off to a later date in order for Aso to display leadership, by releasing his proposals at the emergency financial summit to be held in the U.S. The Aso's instruction given on the 27th was supposed to be the first step for this scenario.

However, with the further advance in stock price falls and the strong yen, attention has focused on the government's countermeasures. Nakagawa ordered the Finance Minister and the Financial Services Agency to come up with every possible measure.

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Officials in charge continued working on that weekend until midnight, while being perplexed, because they were not sure about the cabinet's decision-making process."

However, measures targeting the domestic market are limited in what they can do in dealing with stock plunges triggered by the U.S. and European markets, as one Finance Ministry official said. A sense of alarm about the strong yen, one factor for faltering stock prices, is mounting. However, the effect of intervention in the exchange market is unclear amid massive amounts of funds moving beyond national boundaries. It is also difficult to ask for concerted intervention from the U.S. and Europe. In the end, a joint statement designed to check the excessive high yen was issued in response to the request Japan made to the finance ministers and central bank governors of Group of Seven Nations.

Commenting on a weak effect of the package, Aso simply told reporters on the afternoon of the 27th, "I do not think that the package would produce effects immediately. I have no intention of being moved from joy to sorrow by stock price fluctuations.

Voices calling for interest rate cut at early date

A person responsible for the stock market at a certain leading securities house was apparently surprised at the unabated stock price plunges, saying, "It is scary to check the stock price board." The observation on leading banks' plan to reinforce their capital bases triggered the stock plunges in the morning trading session. Concern about the right of existing shareholders being diluted sent the stock prices of the three major banking groups to a limit low.

Foreign exchange quotations are now more visibly moving in lockstep with stock prices. As the yen makes more gains relative to the dollar, stock prices plummet further due to concern about a decline in export-oriented companies' business performances. This is the pattern now being repeated. Prime Minister Aso instructed the compilation of market stabilization measures after the morning session of trading ended. However, it was not the market stabilization package but the high yen that drew attention of the market. With market players determining that the G-7 statement will have a slim effect in checking the strong yen, stock prices of export-oriented companies, such as auto makers and electronic manufacturers, renewed a record low since the beginning of the year. All stock prices collapsed.

Asian stock prices also plunged in an apparent chain reaction, followed by falls in European share prices. Norihiro Fujito, Investment Information Division chief at Mitsubishi-UFJ Securities, made this comment: "Domestic measures are limited in their effects of putting stock prices on a recovery track. Unless the U.S., where the financial crisis started, comes up with additional measures, the TSE will not stabilize."

Amid the government being limited in what it can resort, voices hoping for an interest rate cut by the Bank of Japan (BOJ) are beginning to gain ground on the market. There is a possibility of

European countries and the U.S., where economies are slowing, cutting interest rates in the future. However, the BOJ has thus far indicated no stance of cutting the interest rate. One market player pointed out that the reason for the unabated strong yen caused by dollar and euro selling for yen buying is because investors are continuing buying the yen, which is free from an interest rate cut."

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The BOJ will hold a policy-setting meeting on the 31st and adopt an immediate monetary policy. The same source took the view that the BOJ could cut the interest rate, if stock prices continue to plunge.

Takashi Anzai (president of Seven Bank): Reason for little expansion of domestic demand

Japan's stock prices have fallen to the level of the fall of 1982. However, even now after the plunges, the Dow Jones industrial average stands at a level eight times higher than the 1982 level. It is difficult to compare these two phenomena in a simplistic manner, but the gap manifests the difference between the side that has served as an economic driving force and the side that has depended on it.

The challenge for the Japanese economy has been all the while how to shift from dependence on foreign demand and expand domestic demand. What is happening means that structural reforms have not taken place on that front.

Unlike the 1980s, there was no trade friction between the two countries. Japan recovered from the collapse of the asset-inflated bubble economy, by making direct investment in China and exporting goods to the U.S. It has increasingly become dependent on the U.S. As a result, the strong yen, which is supposed to have a positive aspect, has continued to serve as a factor for lowering stock prices.

In Japan, the household economy has financial assets worth 1,500 trillion yen, while the government is saddled with huge borrowings. Measures to expand domestic demand that will not entail any more fiscal disbursements governments and divert savings to spending are urged. One possible measure would be the adoption of a tax system that will encourage elderly people who have assets but do not spend much, to leave their assets to young people.

However, it is impossible for Japan to settle the current financial crisis by its own ability. It is necessary for the U.S., where the financial crisis started, to bail out trust in the dollar from the abyss.

Akio Mikuni: Market moving to dissolve distortion

It should be viewed that the steep appreciation of the yen is not because the market has collapsed but because the original function of the market is now trying to work normally. Since the Tokyo market has been distorted extremely due to the policies of Japan and the U.S., drastic moves to dissolve the distortion are occurring. There are two distortions -- the Japanese economy's excessive dependence on foreign demand and the U.S. that uses Japan's money having supported the Tokyo market.

Domestic demand expanded up until the 1980s, with the growth of export-oriented companies reflected in wages. However, low-wage countries have risen since the 1990s. Japan has constrained wage growth, as it wanted to boost exports. In order to prevent the yen from making gains, because a strong yen can have an adverse effect on export, it managed earned dollar funds, thereby returning such funds to the U.S., which wants to continue excessive spending. Japan

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and the U.S. both enjoyed a bubble economy.

Regarding financial policy, yen-carry trading for managing foreign currency using the yen procured at a low interest rate occurred. Foreign money that flowed back to Japan was used for the purchases of Japan stocks. The current share price plunges are the results of the disappearance of a growth engine for the Japanese economy - the U.S. economy, and share buyers.

Stock prices plummeting to the 1982 level does not mean that Japan has fallen into a bottomless pit. The real power of the manufacturing industry is solid. If companies stop exclusively engaging in cost reduction competition and if domestic demand recovers, Japanese companies' capability to respond to sensitive Japanese consumers' needs will increase, leading to the development of competitive new products.

(3) Government's emergency economic measures unlikely to promptly bring about effect

YOMIURI (Page 4) (Full)
October 28, 2008

The government announced a set of emergency economic stimulus measures yesterday. The package includes all possible measure to stabilize the nation's financial systems that have been turbulent due to recent nose-diving stock prices. As key measures, the package proposes tightening controls over share trading and relaxing regulations on bank accounting. Even after the announcement of the package, however, stock prices continued to plummet. Some market observers are skeptical of the prompt efficiency of these measures. Nobody can tell whether stock prices would rally owing to these measures.

Controls over short-selling

State Minister in Charge of Economic and Fiscal Policy Yosano stressed the need for emergency measures, speaking before reporters at the Prime Minister's Office yesterday morning, just after meeting with Prime Minister Aso. He said:

"Based on the current state of the monetary market, the prime minister gave us an instruction. We decided to carry out one practicable measure after another."

The key index of the Tokyo Stock Exchange yesterday fell past the post-bubble low immediately after the start of trading. Alarmed at the situation, the government put forth "the stabilization of the stock market" at the outset of its economic package.

A pillar of the package is tightening controls over short selling of stocks. This measure, which will be introduced in November, will ban the practice of selling a stock short, without first borrowing the shares or ensuring that the shares can be borrowed. But many observers attribute the recent steep drop in stock prices mainly to moves by investors to unload their stocks in the wake of the financial crisis. Given this, it is uncertain whether the restrictions on short selling will greatly contribute to raising share prices.

The package also proposes easing restrictions on banks' shareholdings. Banks are allowed to hold shares worth a value not

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exceeding their capital adequacy ratios. The government is aiming to raise the maximum value as a measure to prevent rushed selling.

The government will also consider resuming a system to let the Banks' Shareholdings Purchase Corporation or the Bank of Japan (BOJ) purchase shares held by banks. However, some observers point out that the neutral stance of the BOJ might be undermined if it possesses shares in individual corporations. They are calling for caution about implementing the measure.

Banks' recapitalization

Another pillar is boosting banks' financial footing that has weakened due to nosediving stock prices. The government will relax

restrictions regarding a bank's capital adequacy ratio (CAR).

CAR is a ratio of a bank's capital to its all assets including risky loans. Banks are required to deduct about 60 PERCENT of potential losses from their core capital, resulting in reducing their CAR. By lowering the ratio of latent losses deducted from capital, the government aims to make a reduction in CAR moderate.

The government will expand the scale of public funds to be injected into banks from the planned 2 trillion yen to 10 trillion yen. It also intends to review the current market-value accounting.

As measures to keep investors in the stock market, the government will consider extending the preferential securities tax system, as well as tax privilege for small-amount transactions by individual investors. The ruling coalition will study introducing these measures in revising the tax system for fiscal 2009 at the end of the year. In the process, the focus of attention is likely to be on how long the system should be extended and at what level the tax rate should be set.

(4) Prime Minister Aso negative about dispatching SDF for activities on mainland Afghanistan

TOKYO SHIMBUN (Internet edition)
October 28, 2008

Prime Minister Taro Aso, appearing in the Upper House Foreign and Defense Affairs Committee this morning, expressed a negative view about the idea of dispatching the Self-Defense Forces (SDF) to mainland Afghanistan, calling into question the constitutionality of such activities. He said: "We cannot deny that they might not get caught up in acts of combat. Opinion is divided over whether it would be viewed as constitutional if they fired in response to counter the other side."

At the same committee meeting, Chief Cabinet Secretary Takeo Kawamura, commenting on dispatching the SDF to serve on ISAF for operations on mainland Afghanistan, he expressed his view about the possibility of such being related to the use of armed force which is prohibited by the Constitution. "When Japan considers joining activities, we need cautiously consider the relationship to the Constitution."

Referring also to the refueling activities by the MSDF in the Indian Ocean, the Prime Minister stressed: "The operations are not for the sake the United States. Japan, too, has joined the war on terror, and since each country expects our refueling activities, we should

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not choose the option of withdrawal." He was replying to questions from Democratic Party of Japan lawmaker Keiichiro Asao and Hiroe Makiyama.

(Kyodo)
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(5) No gas, no power: U.S. pilot

RYUKYU SHIMPO (Page 1) (Full)
Eve., October 27, 2008

Hisao Miyagi

TOKYO-On Oct. 24, a U.S. military light aircraft crashed at Makiya, Nago City. In the aircraft's last radio communication before crashing, its pilot had radioed to an official for Kadena Air Base radar approach control (RAPCON), a system controlling air traffic in airspace near Okinawa's main island, that the plane had "no gas, no power," sources revealed today.

According to the Land and Transport Ministry, Kadena RAPCON authorities reported to the ministry's Naha Airport office on Oct. 24 that there was such a radio message from the light aircraft. However, the ministry still cannot reconfirm it through the U.S. side.

(6) Prefectural assembly special committee coordinating resolution protesting crash of light aircraft

RYUKYU SHIMPO (Page 1) (Full)
Eve., October 27, 2008

In response to the recent crash in Nago City of a light aircraft belonging to the U.S. military, the Okinawa Prefectural Assembly Special Committee on U.S. Military Bases, chaired by Kiyoko Tokashiki, met this morning to hear the circumstances from Okinawa prefectural government and police officials. The committee will coordinate in order to present to the assembly a petition and a protest resolution. In the meeting, committee members from the ruling and opposition parties asserted that under an expanded interpretation of SOFA provisions, the application of the Japan-U.S. Status of Forces Agreement (SOFA) extends even to leisure-purpose aircraft.

Akira Uehara, chief of the Okinawa governor's office of the Okinawa prefectural government, explained that in the wake of a small U.S. aircraft's crash landing in 1999, "(The U.S. military) announced that flight plans would avoid flying over densely populated areas." Due to the accident this time, Uehara stated that the Okinawa prefectural government would also propose prohibiting aircraft from flying over residential areas, as well. Kiyoharu Hidaka, director general of the criminal investigation department at Okinawa prefectural police headquarters, stated that the police "were unable to fully investigate" the accident since the U.S. military, based on the SOFA, did not allow the local police to seize the crashed aircraft. Hidaka revealed that the police have requested the presence of the U.S. military's accident committee for an on-base inspection of the crashed aircraft. He stated that the pilot of the crashed aircraft belongs to a Kadena air wing, adding that the police take the accident as happening when he was off duty.

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(7) U.S. military's investigative cooperation insufficient: Gov. Nakaima

RYUKYU SHIMPO (Page 1) (Full)
Eve., October 27, 2008

Okinawa Gov. Hirokazu Nakaima voiced dissatisfaction with the U.S. military this morning over its failure to fully cooperate with Okinawa prefectural police on the recent crash of a U.S. military lightplane in Nago City, saying: "I know there is Article 17 of the Japan-U.S. Status of Forces Agreement. Basically, however, I want them to prepare a system in concrete terms under which they can cooperate properly with police investigations."

Nakaima made the remarks to Yuji Sakota, a Cabinet Secretariat official for Okinawa affairs and crisis management, at his office this morning.

Nakaima told Sakota: "Whether the U.S. military is cooperating with police investigations is a matter of primary concern to the local residents. I want the government to take appropriate action while standing between the prefectural police and the U.S. military."

The governor told the Ryukyu Shimpo that he would like to go to the accident site shortly to look at the situation.

(8) Death of Kazuya Ito and refueling mission extension debate: Japan's international view called into question; Afghan people's heart and soul must be respected

MAINICHI (Page 6) (Abridged slightly)
October 28, 2008

By Shuichi Abe, Western Press Department

A bill amending the New Antiterrorism Special Measures Law to extend the refueling mission in the Indian Ocean for another year is being used as a bargaining chip between the ruling and opposition in

connection with the timing of dissolving the Lower House. As a person who has covered Peshawar-kai, a nongovernmental pioneer organization of assistance to Afghanistan, I can hardly think that the refueling mission supporting the use of armed force will lead to the eradication of terrorism. Aside from that, it is regrettable that a chance to review Japan's assistance to Afghanistan, which is plunging deeper into chaos, and its involvement in the war on terror is being handled as part of deliberations linked to Lower House dissolution. The New Antiterrorism Law will expire in just two and a half months. I believe the matter must be discussed thoroughly before and after the next general election.

There is a photograph I have of a farewell gathering (held in eastern Afghanistan) for Peshawar-kai aid worker Kazuya Ito, 31, who was abducted and slain in Afghanistan in August. According to Peshawar-kai, the gathering brought together some 800 local condolers, including influential figures. I visited the area for news coverage last year and walked along a 13-kilometer-long agricultural channel. I also saw green fields cultivated by Ito. Grassroots agricultural assistance was highly appreciated by the locals. The people mourning the death of Ito and the sight of those green fields touched my heart.

Afghanistan has been hit by a serious drought on top of the

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maelstrom of war. A British NGO has warned that some 5 million people could face severe food shortages. One out of five children under the age of five dies from malnutrition. Youths finding it hard to make a living constantly join militant groups to earn daily wages like robbers. Ito and others were endeavoring to cut off this unfortunate vicious cycle resulting from poverty and anarchy. The fact that many refugees have returned to settle down in areas near the agricultural channel showed that their efforts have achieved results.

What about the U.S.-led war on terror in Afghanistan? A record 43 coalition force troops died this August. In addition, over 700 civilians have died this year due to accidental bombings by the U.S. military and other events. The public's hatred of foreign forces and the government is increasing.

There is a decisive difference between activities by Ito and others and the refueling mission, although they both aim at bringing peace to Afghanistan. The difference is whether or not in line with the feelings of local residents. Prime Minister Taro Aso has described the refueling mission as a due obligation as a member of the international community. His view ignoring the Afghan quagmire sounded as if Afghan people do not exist in the international community. The prime minister lacks an attitude to consider the reality of Afghanistan, a country far away from Japan, as his own. I cannot help feeling that he cannot face up to the stalled war on terror because of that.

To me, Afghanistan overlaps with Japan 63 years ago. After its defeat in WWII, Japan was reconstructed as a result of accepting surveillance and assistance from the international community. What if the U.S. military continued bombing various parts of Japan in the name of sweeping war criminals? What if that resulted in massive collateral damage, including the deaths of many children? Under such circumstances, did the Japanese people come to terms with their defeat in the war?

In Afghanistan, Taliban insurgents are still engaged in battles joined by "troops" who do not hesitate to launch suicide bombings due to poverty and hatred. Any act of terrorism is completely impermissible. We must not forget the fact that the death of Ito, who sided with those suffering hardships than with international criticism, resulted from the inhumanity of terrorism that has become instilled in the Afghan people.

The Afghan issue is at a big turning point.

It has become clear through Mainichi Shimbun coverage that the Afghan government has been in rapprochement talks with Taliban Supreme Leader Mullah Mohammad Omar. The government feels its

limitations to suppressing by force the Taliban, which is gaining strength as the spokesman for national anger.

The next U.S. President is expected to pursue a new war on terror. Meanwhile, Japanese lawmakers are struggling to determine a Diet timetable centered on Lower House dissolution instead of on substantive debates.

Peshawar-kai Representative in Afghanistan Tetsu Nakamura once described the group's starting point as efforts to respect peoples' lives and search for common ground. His words can be paraphrased as the role that must be played by lawmakers. Japan's international

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view underpinning the New Antiterrorism Special Measures Law does not project the aspect of Afghan people suffering from the vortex of war and the drought. I would like to see the ruling and opposition parties make maximum efforts to look for common ground and end the cycle of poverty and hatred in the backdrop of terrorism.

The application filed for Peshawar-kai by Ito five years ago carried these words: "I want to grow with local residents. I want to assist their efforts to create the environment in which children do not have any difficulty getting food." His cause must not be go to waste.

SCHIEFFER